

# THE BUSINESS SITUATION

Larry R. Moran prepared the first section of this article, and Daniel Larkins prepared the section on corporate profits.

**T**HE “FINAL” estimate of growth in real gross domestic product (GDP) for the first quarter of 1994 is 3.4 percent, 0.4 percentage point higher than the “preliminary” estimate reported in the May SURVEY OF CURRENT BUSINESS (table 1).<sup>1</sup> By

1. Quarterly estimates in the national income and product accounts are expressed at seasonally adjusted annual rates, and quarterly changes are differences between these rates. Quarter-to-quarter percent changes are annualized. Real, or constant-dollar, estimates are expressed in 1987 dollars and are based on 1987 weights.

**Table 1.—Revisions in Real Gross Domestic Product and Prices, First Quarter 1994**

[Seasonally adjusted at annual rates]

	Percent change from preceding quarter		Final estimate minus preliminary estimate	
	Preliminary estimate	Final estimate	Percentage points	Billions of 1987 dollars
<b>Gross domestic product</b> .....	<b>3.0</b>	<b>3.4</b>	<b>0.4</b>	<b>5.4</b>
Less: Exports of goods and services .....	-1.0	-2.8	-1.8	-2.8
Goods .....	-3.4	-2.2	1.2	1.4
Services .....	6.2	-4.5	-10.7	-4.2
Plus: Imports of goods and services .....	8.6	9.5	1.4	1.4
Goods .....	9.8	10.8	1.0	1.4
Services .....	2.3	2.3	0	0
<b>Equals: Gross domestic purchases</b> .....	<b>4.2</b>	<b>4.9</b>	<b>.7</b>	<b>9.6</b>
Personal consumption expenditures .....	4.6	5.2	.6	5.6
Durables .....	10.2	10.2	0	0
Nondurables .....	4.2	4.3	.1	.3
Services .....	3.3	4.5	1.2	5.2
Fixed investment .....	6.5	7.6	1.1	2.3
Nonresidential .....	6.1	7.3	1.2	1.8
Structures .....	-20.1	-17.7	2.4	1.1
Producers' durable equipment .....	16.1	16.8	.7	.7
Residential .....	7.6	8.5	.9	.5
Change in business inventories .....				1.5
Nonfarm .....				1.1
Farm .....				.3
Government purchases .....	-3.6	-3.5	.1	.2
Federal .....	-4.9	-5.3	-.4	-.3
National defense .....	-14.5	-15.2	-.7	-.5
Nondefense .....	18.3	18.7	.4	.1
State and local .....	-2.9	-2.5	.4	.6
Gross domestic purchases price index (fixed weights) <sup>1</sup> .....	2.6	2.6	0	
GDP price index (fixed weights) <sup>1</sup> .....	3.1	3.2	.1	

1. Based on 1987 weights.

NOTE.—Final estimates for the first quarter of 1994 incorporate the following revised or additional major source data that were not available when the preliminary estimates were prepared.

*Personal consumption expenditures:* Revised retail sales for March.

*Nonresidential fixed investment:* Revised construction put in place for February and March, revised manufacturers' shipments of equipment for March, and revised shipments of complete civilian aircraft for March.

*Residential investment:* Revised construction put in place for February and March.

*Change in business inventories:* Revised manufacturing and trade inventories for March.

*Net exports of goods and services:* Revised merchandise exports and imports for January, February, and March; revised exports and imports of services for the quarter; and revised seasonal adjustment factors.

*Government purchases:* Revised State and local government construction put in place for February and March.

*Net interest:* Financial assets held by households for the quarter and revised net interest from the rest of the world for the quarter.

*Corporate profits:* Revised domestic book profits and profits from the rest of the world for the quarter.

*GDP prices:* Revised housing prices for the quarter and revised export and import prices for the quarter.

component, the largest revisions were in personal consumption expenditures (PCE) for services, up \$5.2 billion, and in exports of services, down \$4.2 billion. These revisions primarily reflected the incorporation of revised balance of payments estimates for expenditures in the United States by nonresidents.<sup>2</sup> In exports, expenditures in the United States by nonresidents on hotels, meals, entertainment, transportation, and other services were revised down by \$3.0 billion; this revision was offset by a corresponding upward revision in PCE services.<sup>3</sup> Among other components of GDP, fixed investment and change in business inventories were revised up. The upward revision in fixed investment was widely spread among major components, with the largest revision in nonresidential structures. The upward revision in the

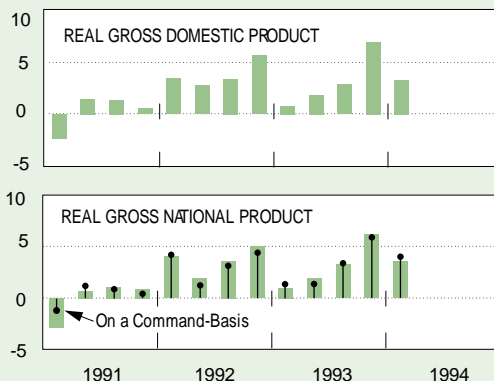
2. For a discussion of this year's annual revision of the balance of payments estimates, see “U.S. International Transactions, Revised Estimates for 1984–93” in this issue.

3. The source data used in estimating PCE do not distinguish between domestic and foreign purchasers. Thus, in deriving PCE—which measures purchases by U.S. residents—BEA adjusted the source data by subtracting balance of payments estimates of expenditures in the United States by nonresidents.

**CHART 1**

## Selected Product Measures: Change From Preceding Quarter

Percent



NOTE.—Percent change at annual rate from preceding quarter, based on seasonally adjusted estimates.

U.S. Department of Commerce, Bureau of Economic Analysis

change in business inventories was primarily in nonfarm inventories.

The final estimate of real gross domestic purchases shows a 4.9-percent increase, 0.7 percentage point higher than the preliminary estimate.

The final estimates of the fixed-weighted price indexes for gross domestic purchases and for GDP show increases of 2.6 percent and 3.2 percent, respectively, little changed from the preliminary estimates.

**Gross national product (GNP).**—Real GNP increased 3.5 percent in the first quarter ([chart 1](#), [table 2](#)). GNP equals GDP *plus* receipts of factor income from the rest of the world *less* payments of factor income to the rest of the world. In the first quarter, receipts increased \$2.4 billion, and payments increased \$1.5 billion. Profits more than accounted for the increase in payments and accounted for two-thirds of the increase in receipts; interest income accounted for the rest of the increase in receipts.

Real GNP on a command basis increased more than real GNP—4.0 percent, compared with 3.5 percent—reflecting an improvement in the terms

of trade.<sup>4</sup> In the fourth quarter, command-basis GNP increased slightly less than real GNP—6.1 percent, compared with 6.2 percent—reflecting a slight deterioration in the terms of trade.

## Corporate Profits

Profits from current production—profits before tax plus inventory valuation adjustment and capital consumption adjustment—decreased \$29.9 billion in the first quarter after increasing \$39.4 billion in the fourth ([table 3](#)). The decrease can be traced to the Northridge earthquake, which struck southern California on January 17:

4. In estimating real GNP, the current-dollar value of exports of goods and services is deflated by export prices, the current-dollar value of imports of goods and services is deflated by import prices, and the current-dollar values of receipts and of most payments of factor income are deflated by the implicit price deflator for net domestic product. In estimating command-basis GNP—a measure of U.S. production in terms of its purchasing power—the current-dollar values of exports of goods, services, and incomes are deflated by the implicit price deflator for imports of goods, services, and incomes. The terms of trade is measured by the ratio of the implicit price deflator for exports of goods, services, and incomes to the corresponding implicit price deflator for imports with the decimal point shifted two places to the right.

**Table 3.—Corporate Profits**

[Seasonally adjusted at annual rates]

	Level		Change from preceding quarter	
	1994:I	1993:IV	1994:I	1994:II
Billions of dollars				
<b>Profits from current production</b> .....	<b>478.0</b>	<b>39.4</b>	<b>-29.9</b>	
Domestic .....	423.6	47.0	-29.2	
Financial .....	70.0	8.5	-26.1	
Nonfinancial .....	353.7	38.5	-3.0	
Rest of the world .....	54.4	-7.6	-7.9	
IVA .....	-16.2	-5.3	-11.9	
CCAdj .....	20.0	.1	-3.9	
Profits before tax .....	474.2	44.6	-14.2	
Profits tax liability .....	186.7	23.0	-5.8	
Profits after tax .....	287.5	21.6	-8.4	
Cash flow from current production .....	553.0	15.7	-6.0	
<b>Profits by industry:</b>				
Profits before tax with IVA .....	458.0	39.2	-26.0	
Domestic .....	403.6	46.8	-25.3	
Financial .....	82.9	8.8	-25.2	
Nonfinancial .....	320.7	38.0	-1.1	
Manufacturing .....	154.1	22.2	5.2	
Trade .....	57.0	6.3	-4.4	
Transportation and public utilities .....	61.5	5.9	-3.4	
Other .....	48.1	3.7	2.3	
Rest of the world .....	54.4	-7.6	-7.9	
Receipts (inflows) .....	76.0	-8.8	2.8	
Payments (outflows) .....	21.6	6.8	3.5	
Dollars				
<b>Unit prices, costs, and profits of domestic nonfinancial corporations:</b>				
Unit price .....	1.171	0.001	0.006	
Unit labor cost .....	.766	-.007	.004	
Unit nonlabor cost .....	.289	-.003	.005	
Unit profits from current production .....	.116	.010	-.002	

Levels of these and other profits series are found in tables 1.14, 1.16, 6.16C, and 7.15 of the "Selected NIPA Tables."

IVA Inventory valuation adjustment

CCAdj Capital consumption adjustment

**Table 2.—Relation of Gross Domestic Product, Gross National Product, and Command-Basis Gross National Product in Constant Dollars**

[Seasonally adjusted at annual rates]

	Billions of 1987 dollars				
	Level		Change from preceding quarter		Percent change from preceding quarter
	1994:I	1993:IV	1994:I	1993:IV	
<b>Gross domestic product</b> .....	<b>5,269.5</b>	<b>87.3</b>	<b>43.9</b>	<b>7.0</b>	<b>3.4</b>
Plus: Receipts of factor income from the rest of the world .....	110.9	1.4	2.4	5.3	9.1
Less: Payments of factor income to the rest of the world .....	111.9	10.8	1.5	51.0	5.5
<b>Equals: Gross national product</b> .....	<b>5,268.5</b>	<b>77.9</b>	<b>44.8</b>	<b>6.2</b>	<b>3.5</b>
Less: Exports of goods and services and receipts of factor income from the rest of the world .....	726.5	29.5	-2.0	18.0	-1.1
Plus: Command-basis exports of goods and services and receipts of factor income .....	751.8	28.7	5.0	17.0	2.7
<b>Equals: Command-basis gross national product</b> .....	<b>5,293.7</b>	<b>77.0</b>	<b>51.8</b>	<b>6.1</b>	<b>4.0</b>
<b>Addendum:</b>					
Terms of trade <sup>1</sup> .....	103.5	-2	1.0	-8	4.0

1. Ratio of the implicit price deflator for exports of goods, services, and incomes to the corresponding implicit price deflator for imports with the decimal point shifted two places to the right.

NOTE.—Levels of these series are found in tables 1.10 and 1.11 of the "Selected NIPA Tables."

Earthquake-related benefits paid by insurance companies reduced their profits about \$22 billion, and earthquake-related damage to corporate equipment and structures that was not offset by insurance benefits reduced profits of all industries about \$8 billion.


A large decrease in profits from the domestic operations of financial corporations mainly reflected benefits paid by insurance carriers as a result of the earthquake. A much smaller decrease in profits from the domestic operations of nonfinancial corporations reflected a decrease in unit profits; a rise in unit nonlabor cost largely reflected losses of fixed capital in the earthquake. Profits from the rest of the world decreased slightly.

Cash flow from current production, a profits-related measure of internally generated funds available to corporations for investment, decreased \$6.0 billion after increasing \$15.7 billion. As a result of the decrease in cash flow and an increase in nonresidential fixed investment, the ratio of cash flow to nonresidential investment was reduced to 82.7 percent from 85.2 percent. The ratio has been drifting down from its peak of 93.8 percent in the first quarter of 1992, but it is still higher than it was in the 1980's.

**Related measures.**—Industry profits are measured by profits before tax (PBT) with inventory valuation adjustment (IVA) because estimates of the capital consumption adjustment by industry do not exist. Like profits from current production, this measure of profits dropped sharply in the first quarter after a sharp increase in the fourth. Virtually all of the drop in PBT

with IVA was accounted for by financial corporations; property and casualty insurance carriers accounted for most of the drop, but commercial banks and savings and loan associations also contributed. Profits of nonfinancial corporations changed little, as decreases in trade and in the transportation and public utilities group were almost entirely offset by increases in manufacturing and in "other" nonfinancial industries. The decrease in trade profits was more than accounted for by nonfood retail stores; the decrease in profits of the transportation and public utility group was mitigated by increased profits of communications companies, which are included in this group. The increase in manufacturing profits reflected substantially higher profits in motor vehicles and in food; these higher profits were partly offset by substantially lower profits in petroleum.

In profits from the rest of the world, receipts of profits from foreign affiliates of U.S. corporations increased \$2.8 billion, and payments of profits by U.S. affiliates of foreign corporations increased \$3.5 billion. Manufacturing affiliates contributed to both increases. Petroleum affiliates contributed to the increase in payments but not to the increase in receipts. Receipts and payments from "other" affiliates decreased.

PBT decreased \$14.2 billion. The difference between this decrease and the \$29.9 billion decrease in profits from current production mainly reflected a decrease in the IVA. The IVA, an estimate of inventory profits with the sign reversed, decreased \$11.9 billion. The increase in inventory profits reflected an increase in prices of inventoried goods. 

## Annual Revision of the NIPA's: Presentation of Revised Estimates and Related Information

An article presenting the revised national income and product accounts (NIPA) estimates for the 3-year period beginning with the first quarter of 1991 and discussing major sources of revisions will appear in the July SURVEY OF CURRENT BUSINESS. The July issue will contain the five summary accounts of the NIPA's; a complete list of NIPA tables; the full set of NIPA tables, except for the government expenditures by type and function tables and the government reconciliation tables (tables 3.15-3.20), the seasonally unadjusted tables (tables 9.1-9.6), and the alternative quantity and price measures that appear in tables 7.1-7.9, 7.11-12, and 8.1; and the NIPA index.

The August SURVEY will contain the alternative quantity and price measures for the first quarter of 1988 through the second quarter of 1994. It will also present revised estimates of fixed reproducible tangible wealth in the United States for 1991-93, as well as summary estimates for 1925-93.

The September SURVEY will contain NIPA tables 3.15-3.20 and 9.1-9.6, as well as the summary NIPA tables for 1929-93. It will also present revised constant-dollar inventories, sales, and inventory-sales ratios for manufacturing and trade beginning with the first quarter of 1991.

The October SURVEY will contain estimates of gross product originating by industry for 1991-92.

In addition, the revised NIPA estimates will be made available on printouts, computer tape, and diskettes; for order information, write to the National Income and Wealth Division (BE-54), Bureau of Economic Analysis, Washington, DC 20230 or call (202) 606-5304. The revised estimates will also be placed on the U.S. Department of Commerce's Economic Bulletin Board; for information, call the Office of Business Analysis at (202) 482-1986.